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NORTHERN BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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CONTENTS

UNITED KINGDOM.....	1
COMMONWEALTH & EMPIRE....	4
IRELAND.....	5
CANADA	6
NORWAY	7
SUPPLEMENT.....	8
(Dollar Earnings of Sterling Area)	

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Office of Reports and Estimates
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. Labor rank-and-file appear unaware of danger in Britain's economic crisis

The labor rank-and-file appear unaware of their vulnerable position in Britain's serious economic crisis as demands from unions for increased benefits are pressed and unofficial strikes continue. Some 10,000 London dockworkers have voted against returning to work,* apparently unmoved by the Government's decision to proclaim a state of national emergency. A resolution demanding increased pay for lower-grade workers was passed at the National Union of Mineworkers' recent annual conference despite union leaders' pleas that such disregard for Government policy at this time would inevitably injure the whole labor movement and might possibly bring down their Government. Scattered "slowdowns" prevail in the Government-owned railways as negotiations for an acceptable wage increase for railwaymen continue between the Railway Executive and the National Union of Railwaymen.

The Government is aware that its economic difficulties are little understood by the rank-and-file, who seem determined that the Labor Government which it put into office shall continuously provide more benefits regardless of economic conditions. If Britain's economic plight forces the Government to take measures which will reduce the present standard of living and perhaps create some unemployment, and should union leaders fail in persuading the rank-and-file to support such measures, the chances of the Labor Party winning the next general election will be doubtful.

2. Very little light on the Anglo-Soviet Trade Pact

The unwonted secrecy with which the British surrounded the Anglo-Argentine Trade Agreement in the formative stage also extended to Anglo-Soviet trade negotiations. It thus appears to be a matter of policy to keep the US in the dark over trade arrangements until the fait accompli. The reason for this may lie in a fear of US interference in delicate and serious matters

* See NB Weekly No. 71, 5 July 1949

CONFIDENTIAL

CONFIDENTIAL

-2-

for the British. No other explanation is apparent.

All that can be ascertained regarding the Anglo-Soviet negotiations is that, following intermittent meetings which extended over months (and during which the British vouchsafed that the USSR was asking too much for wheat), a deal was reached involving a reported 950,000 tons of Soviet coarse grains, "substantial" quantities of wheat, and possibly some timber, potash, and canned fish in return for British machinery, ships, rubber, and wool. The agreement is believed to be of 12 months duration and to amount to about \$400 million each way. Two bets appear to be safe: (a) The Canadians have been kept au courant, since the UK would not risk offending the Commonwealth supplier of the majority of its wheat; and (b) the UK has not undertaken to ship the USSR any materials contributing directly to the latter's war potential.

3. UK prepared for long continuance of British administration of Tripolitania

In their new piecemeal approach to the Italian colonies question, the British seem to be balancing their policy of swift constitutional change in Cyrenaica with a Tripolitanian policy of maintaining a slightly modified version of the status quo. Both the nature of the pressures responsible for this Tripolitanian policy and the measures being taken by the British Administration in Tripoli suggest that this policy will be operative for some time to come.

The French have flatly told the UK that any effort by Emir Sayid Idriss (who is currently en route to London for consultations) to extend his new Cyrenaican regime to all of Libya would be considered an unfriendly act toward France. The British, recognizing the threat to the political stability of French North Africa--and to Anglo-French relations--that a wholly independent Libya would pose at this time, are therefore unlikely to allow negotiations between the Emir and Tripolitanian Arab leaders to reach any very fruitful conclusions for the present. At the same time, however, UK officials have made clear that they do not regard as practical politics an Anglo-Italian or any similar variety of multiple trusteeship for Tripolitania.

Meanwhile, the Administration in Tripolitania is going ahead with measures to make a continuation of British rule somewhat more palatable. Arab notables have been privately informed

CONFIDENTIAL

CONFIDENTIAL

-3-

that the Bevin-Sforza deal is dead; a few Arabs are being appointed to higher posts in the Administration; and an Economic Mission of four British civil servants is going to Tripolitania to make a very comprehensive survey of economic and social reforms which might improve the condition of the inhabitants without damaging that of the British Treasury. Though the British minimize the changes that will have occurred in Tripolitania before the UNGA takes up the question again in September, it is plain that they anticipate being the governing authority of the area for a much longer period.

There is, additionally, some ground to believe that the Foreign Office favors "indefinite postponement" of the Libyan question in the GA, allowing the problem to be discussed from session to session, but without a decision emerging and with the British concurrently extending the area of Libyan autonomy and eventually recognizing Libyan independence as an accomplished fact. A similar procedure might be followed on Italian Somaliland, with its final destination that of incorporation with British Somaliland. It is probable, however, that the formation of British policy on these more distant developments awaits the course of events, including the ascertaining of US views on the subject.

4. Exercise "Foil" -- Aftermath

Highly publicized accounts of the UK air defense exercise "Foil"* must not deflect attention from certain underlying facts in trying to evaluate the results. Although any simulated war games tend to foster the "contest" idea, this exercise was planned primarily to give operational experience to the participating elements. Therefore, in order that all units could derive maximum benefit, certain artificial elements had to be introduced which made the maneuver unrealistic to some extent.

In due time the Air Ministry will no doubt come up with an official assessment which takes into account the deviations found necessary. Currently the most valid press comment is that technicians from both the attacking and defending units found it hard to reach a firm conclusion on the relative performance of jet fighters versus "superbombers" on the basis of their planned operations in the games.

* See NB Weekly No 68, 20 June 1949

CONFIDENTIAL

CONFIDENTIAL

-4-

COMMONWEALTH AND EMPIRE

Union of South Africa

1. Defense Minister seeking US aid for reconstruction of Union's armed forces

Defense Minister Erasmus's forthcoming visit to Washington concerns an effort to modernize the Union's armed forces generally and in particular to build up an air force which the Union could send abroad to augment Western air power in a major conflict involving South African interests. Though the Nationalist Government has played up to its party's strong isolationist traditions in organizing a new militia of use only for maintaining internal order, it has to some extent balanced this policy by falling in with the professional military men's desire to plan a small but efficient expeditionary force capable of cooperating with the US and the UK. This force, which would be largely an air force, would depend heavily on new equipment obtained in London or Washington. Ten Vampire planes were purchased recently from the British; and Erasmus, accompanied by his Chief of Staff, is now in London discussing the possibility of additional equipment before coming to the US.

Erasmus's aim in the US is to obtain, on knockdown terms if he can, six B-29's and 40 jet fighters, which would be the core of an expeditionary force and would have alternative duties in connection with home defense. He also seeks equipment for one armored division. As a result of previous feelers on the chances of obtaining US military equipment, Erasmus is not optimistic about his mission's success here, and might be satisfied with obtaining training opportunities in the US.

Western Hemisphere Colonies

2. Further dollar restrictions difficult for UK's Western Hemisphere Colonies

Britain's Western Hemisphere colonies face special problems in complying with the Colonial Office's request of 3 July that colonial governments follow the home government in temporarily suspending dollar purchases. These colonies have not for years followed the traditional colonial pattern of drawing on their own resources for food and on the UK for manufactured goods; instead they have been to a large degree dependent on the US and Canada for supplies in both categories. Although existing currency controls and import license restrictions have in the opinion of

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US observers already reduced hard currency imports to a minimum and have caused considerable local grumbling and calls for larger dollar allocations, the percentage of total imports coming from hard currency areas still remains high. The import restrictions have been especially irritating to the local populations because of the higher costs of British manufactured goods as compared with American products, giving rise to the charge that British firms are taking advantage of the situation to profiteer. Efforts to comply with the Colonial Office request will doubtless be made; but, unless the political and economic tensions in this area are to be further aggravated, the UK needs to couple its call for tougher dollar restrictions with additional efforts to assure these colonies alternative sources of supply within the sterling area.

IRELAND

3. Ireland and the sterling-dollar crisis

There has as yet been no well-defined Irish reaction to Britain's latest dollar crisis, but Minister for External Affairs MacBride has chosen this time to propose to the OEEC that a world economic conference be convened to discuss means of restoring international trade to a multilateral basis. MacBride, whose point of view is quite different from Cripps's as regards timing, criticizes as "outdated" plans to meet Europe's economic problem merely by limiting dollar purchases and attempting to expand exports to the US. He is probably partially motivated by a desire to see his own country's economy and economic policy more closely integrated with that of continental Europe and less entangled with that of the UK.

At present Ireland's dollar needs are being met from ECA loans and its own meager dollar earnings. But even though the Irish are not now drawing dollars from the sterling area dollar pool, they are bound to be concerned over any steps the British take to cope with the current crisis. The Irish economy is closely intermeshed with the British; furthermore, the Irish have large sterling balances and will not be able to meet their ECA loan obligations unless sterling convertibility is restored. If the British devalue the pound sterling, the Irish pound, which has always been freely interchangeable pound for pound with it, will probably be devalued similarly, although it is just possible that the Irish would attempt to keep their pound somewhat above the level of the pound sterling.

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NORTH AMERICAN DIVISION

CANADA

1. Canadian Armed Services Vote

Results of the advanced balloting conducted in the Canadian Armed Services during the week preceeding the 27 June federal elections reflected the ineffectiveness of Communist influence in the defense establishment, with only 32 votes cast for the Labor Progressive party. Although the results of the balloting were not announced until 2 July, the service vote, in which only slightly more than 50% of those eligible participated as compared to a civilian turn out of approximately 75%, had no effect on the final outcome of the elections; however, in one Nova Scotia riding, a recount may have been provoked when the Progressive Conservative candidate's lead over his Liberal opponent was cut to two by reason of the delayed service vote.

2. Asbestos strike ends

The 20-week old strike at the Canadian Johns-Manville Company at Asbestos, Quebec,* ended on 1 July with the miners receiving an improvement in working conditions and partial satisfaction in their demands for a wage increase. The settlement came through negotiations personally conducted by the Catholic Archbishop of Quebec.

Canadian asbestos production, about 4/5 of the world total, was seriously curtailed by the strike. Although the strike affected production during only half of the first quarter of 1949, latest figures show producers' shipments of asbestos were off 1/3 from the comparable 1948 period. The newly-discovered deposits of the Company at Larder Lake in Ontario, expected to be in operation by the end of this year, will lessen Johns-Manville's dependence on production at Asbestos, Quebec. Although for the first few years Larder Lake output will be on a much smaller scale than Asbestos production the average value of the Ontario deposits is approximately twice that of the Asbestos deposits.

* See NB Weekly No 64, 16 May 1949

~~CONFIDENTIAL~~

~~SECRET~~
CONFIDENTIAL
SCANDINAVIAN DIVISION

-7-

NORWAY

1. Norwegian ex-Nazis still a problem.

Recent attempts by ex-Nazis to form an organization composed of Norwegians who were Nazi sympathizers during the war indicate the difficulties Norway is encountering in reabsorbing those individuals as acceptable members of society. The stated objective of the organizers is to obtain full amnesty for former traitors and to secure restoration of fines that have been levied as the result of court action against them.

Following the liberation approximately 60,000 Norwegians were considered to be traitors because of their membership in the Nasjonal Samling (NS), the Quisling party, or because of economic collaboration with the German occupation forces. Legal procedures were established for prosecuting the offenders, and the intent was that after serving the jail sentence or paying the fine imposed as the result of such a trial the individuals would become acceptable Norwegian citizens again. Officials underestimated the antagonism towards NS members among loyal Norwegians, however, and the outcome has been that former NS members are effectively ostracized even after having completed legal atonement. A good indication of the strong feeling still persisting was the recent strike by the taxi drivers in Oslo against reemployment of a former NS member despite his fulfillment of the penalties assessed by the courts. Many NS members have illegally emigrated to South America and other countries rather than face continued unemployment in Norway.

The success in organizing former NS members largely will depend upon the amount of outside financial support because the fines imposed severely reduced the economic status of the offenders. The group may fall prey to Communist exploitation, but there is no evidence to indicate that such is already the case.

No expeditious solution to the problem is possible. It can probably be minimized by a government propaganda campaign to lessen the stigma attached to such actions, but the passing of the generation is the only assured relief.

CONFIDENTIAL

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-8-

SUPPLEMENTThe Dollar Earnings of the Sterling Area

The chief reason for the sharp increase in the drain on Britain's reserves during the second quarter of 1949 is the drop in the earnings of the sterling area's exports to the US while dollar imports remained at or near peak levels. This falling-off of dollar receipts is due in part to the cancellation or postponement of US orders as a result of the domestic "recession" and rumors of an impending devaluation of the pound, and in part to the drop in the price of such notable sterling area dollar earners as rubber, cocoa, and jute. The importance to the sterling area of these commodities is examined in the following analysis.

According to the trade statistics of the US Department of Commerce, the total visible imports (excluding gold and silver) into the US from the sterling area amounted in 1948 to \$1,356 million. Total visible US imports from all sources in 1948 amounted to \$7,038 million, of which the sterling area thus accounted for 19.3%. Ten countries accounted for 94.6% of total imports from the sterling area to the US in 1948. In order of their importance these were:

<u>Country</u>	<u>% of all sterling area</u>	<u>\$000</u>	<u>Chief Export</u>
Malaya	13.9	269,544	Rubber and Tin
India	13.7	267,711	Jute
United Kingdom	13.2	260,536	Manufactures
Union of South Africa	10.2	137,055	Stones (precious-semi)
Australia	9.5	131,811	Raw Wool
Gold Coast	5.6	75,241	Cocoa, Coffee
Ceylon	3.9	52,527	Rubber, Tea
New Zealand	2.4	32,774	Raw Wool, Hides
Nigeria	2.3	31,047	Cocoa, Coffee
Pakistan	1.9	24,937	Jute
Total 10 countries	94.6	1,263,103	

The 10 main commodity exports which accounted for about

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-9-

78% of total US imports from the sterling area were:

<u>Commodity</u>	<u>% of all commodities from sterling area</u>	<u>Value \$000</u>
Rubber & allied gums	16.1	218,656
Jute & manufactures	12.2	165,488
Raw wool	11.0	149,119
Cocoa, coffee, tea	9.8	132,914
Leather, skins, hides, furs	6.1	82,178
Stones, precious and semi-	5.9	79,711
Tin	5.4	72,702
Machinery, vehicles, etc	4.1	55,513
Wool, mfg and semi-mfg	2.8	38,247
Cotton, raw & mfg	1.6	21,944
Total 10 commodities	75.0	1,015,472

There has been a marked fall in the volume of certain sterling area exports, notably in diamonds from South Africa; vehicles, tractors and textiles from the UK; and raw wool from Australia and New Zealand. Concurrent with this drop in volume, the prices of sterling area exports to the US have fallen, particularly those of rubber and cocoa. Rubber, for example, was quoted in June 1949 at 17¢. In this connection, it has been estimated that, based on last year's dollar earnings of Malayan rubber (450,000 tons at an average price of 18.7¢ per pound, earned approximately \$135 million) which accounts for about 85% of the total rubber sales to the US, the fall of every British penny (1.7¢ approximately) in the price per pound of Malayan rubber represents about \$17 million in the annual UK balance of trade.

Cocoa has dropped from an average of 42¢ per lb. in June 1943 to about 18¢ per pound in July 1949. Raw jute is also down slightly. Since the export of rubber, jute and cocoa comprise three out of the four leading dollar earning commodities the fall in prices constitutes a very serious factor at the present time. There is, moreover, no particular indication that the world price trend will reverse itself in the foreseeable future.

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